

## Message Text

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ACTION AGR-08

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 H-02 PA-01

PRS-01 USIA-06 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 LAB-04 SIL-01 /085 W

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R 140740Z MAR 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 4161

INFO USLO PEKING

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

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FOR AGRICULTURE, FAS, FCA, COTTON DIVISION

FROM: AGRICULTURAL OFFICER

E.O. 11652: N/A

TAGS: EAGR CH ETRD

SUBJ: PRC CANCELLATION OF U.S. COTTON PURCHASES: SOME OBSERVATIONS

REF: A) HONG KONG 0546 B) HONG KONG 1455

BEGIN SUMMARY: COMBINATION OF SEVERAL MAJOR ECONOMIC DEVELOPMENTS (RATHER THAN POLITICAL CONSIDERATIONS) APPEAR TO LIE BEHIND PRC'S RECENT CANCELLATION OF U.S. COTTON PURCHASES SO SOON AFTER CANCELLATION OF NEARLY ONE MILLION TONS OF U.S. WHEAT. THESE INCLUDE DECLINE IN PRC COTTON YARN AND COTTON TEXTILE EXPORT MARKETS; GOOD 1974 COTTON CROP, IN NEIGHBORHOOD OF 2.5 MILLION METRIC TONS (APPROX. 11.5 MILLION 480-LB BALES); OPPORTUNITY TO REDUCE OUTFLOW OF FOREIGN EXCHANGE; PROBABLE SHORTAGE OF SUITABLE COTTON STORAGE FACILITIES; AND INFEASIBILITY OF INCREASING PER CAPITA COTTON RATION. PRC'S  
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CURRENT "SURPLUS" SUPPLY POSITION THUS PERMITS EXPORT OF

RAW COTTON TO HONG KONG AND OTHER COUNTRIES, AT LEAST IN SHORT TERM. END SUMMARY

1. CHINA'S RECENT CANCELLATION F 233,000 BALES OF U.S. COTTON CONTRACTED FOR LAST YEAR FOR DELIVERY IN MY 1974-75, TOGETHER WITH POSSIBLE CONCELLATION OF MOST, IF NOT ALL, OF BALANCE OF 200,000 ODD BALES BOOKED FOR SHIPMENT DURING THE SAME PERIOD, RAISES OBVIOUS QUESTIONS OF MOTIVATION, ESPECIALLY BECAUSE COTTON CANCELLATION FOLLOWED SO CLOSELY BEHIND CANCELLATIONS OF U.S. WHEAT.

2. THE AGRICULTURAL OFFICER BELIEVES THAT MAJOR CONSIDERATIONS LYING BEHNG THE COTTON COTRACT CANCELLATION ARE ECONOMIC RATHER THAN POLITICAL. THESE INCLUDE: (1) DECLINE IN PRC COTTON YARN AND COTTON REXTILE EXPORT MARKETS; (2) GOOD 1974 COTTON CROP, IN NEIGHBORHOOD OF 2.5 MILLION METRIC TONS (APPROX. 11.5 MILLION 480-LBS BALES); (3) OPPORUTNITY TO REDUCE OUTFLOW OF FOREIGN EXCHANGE; (4) PROBABLE SHORTAGE OF SUITABLE COTTON STORAGE FACILTIES; AND (5) INFEASIBILITY OF INCREASING PER CAPITA COTTON RATION.

3. OTHER SIGNS WHICH POINTED TO PROBABILITY OF EVENTUAL CAN-CELLATION OF PARTY, IF NOT ALL, OF U.S. COTTON PRUCHASED LAST YEAR WERE RECENT REPORTS THAT PRC HAD BEGUN EXPORTING RAW COTTON- NOT A "NORMAL" EXPORT ACTIVITY FOR CHINA.

4. ON FIRST POINT, SPOT COMPARISION OF HONG KONG IMPORT DATA FOR PERIOD JANUARY THROUGH SEPTEMBER 1974 (LATEST MONTH AVAILABLE) WITH JAN. - SEPT. 1973 REVEALS VERY SHARP DECLINE IN IMPORTS OF PRC COTTON YARN AND GREY CLOTH AND OTHER COTTON PIECE GOODS, AS WELL AS COTTON CLOTHING, DURING FRIST NINE MONTHS OF CY 1974.  
(AN EVEN SHARPER DECLIN UNDOUBTEDLY TOOK PLACE IN OCT. - DEC. 1974 IN THIS MAJOR MARKET FOR PRC COTTON TEXTILES). IMPORTS OF PRC COTTON WERE DOWN BY HALF (49.6 PERCENT) IN VOLUME, FROM 11.9 MILLION TO 6.0 MILLION IOUNDS, WHILE COTTON PIECES GOODS IMPORTS DECLINED EVEN MORE BY 53.1 PERCENT-- FROM 169.2 MILLIN TO 79.3 MILLION SQUARE YARDS. IMPORTS OF 17 CATEGORIES OF COTTON CLOTHING WERE ALSO DOWN IN 1974.

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5. THESE COMBINEE DOWNTURNS HAVE SHARPELY REDUCED THE VOLUME OF RAW COTTON NEEDED FOR PROCESSING INTO TEXTILES FOR JUST THE HONG KONG MARKET ALONE. IN ADDITION, ALTHOUGH DATA ARE NOT YET AVAILABLE HERE, IT IS ASSUMED THAT OTHER PRC COTTON TEXTILES EXPORT MARKETS HAVE ALSO DECLINED TO VARYING DEGREES, SOME PROBABLY SHARPLY , WHCH WOULD REDUCE PRC COTTON TEXTILE MILL REQUIREMENTS STILL FURTHER.

6. INCIDENTIALLY, INFLATIONARY PRICE TRENDS MADE LITTLE IMPACT  
IN MITIGATING PRC'S REDUCED COTTON TEXTILE EXPORTS EARINGS  
FROM HONG KONG ; THE VALUE OF PRC YARN IMPORTS FELL Y 43.1  
PERCENT AND PRC COTTON PIECES GODDS, IMPORS BY 32.2 PERCENT,  
DOWN BY A TOTAL OF HK \$106.9 MILLION FROM JAN. - SEPT. 1973 FOR  
THOSE TWO MAJOR GROUPINGS.

7. RE. PRC 1974 COTTON HARVEST --- COMPUTATIONS BASED ON PREMIER  
CHOU EN-LAI(S STATEMENTS OF JAN. 17, 1975 AT THE NATIONAL  
PEOPLE'S CONGRESS SUPPORT AG OFFICER PSITION THT LEVELEZ H  
EXISTING S&D SERIES HAVE BEEN TOO LOW. CHOU'S CLAIM THAT 1974  
COTTON PRODUCTION HAD INCREASED BY 4.7 TIMES OVER 1949 LEADS  
TO ESTIMATED 1974 PRODUCTION OF SLIGHTLY HIGHER THAN 2.5 MILLION  
METRIC TONS.

8. ON BASIS OF AVAILABLE PROVINCIAL RESULTS, AG OFFICER EARLIER  
(REFTEL A) HAD ESTIMTEED 1974 COTTON CROP AS SLIGHTLY BELOW 1973--  
POSSIBLE 4 PERCENT BELOW. IF THIS ESTIMTED DECLINE IS APPLIED  
TO CHOU'S CLAIM AND USED AS BSIS FOR 1973 CROP ESTIMATE, TEN  
RECORD PRODUCTIN CLAIMED FOR 1973 WOULD BE APPROXIMATELY 2.6  
MILLION METRIC TONS. WITH TWO CONSECUTIVE HARVESTSA T11.5  
-11.9 MILLION BALE LEVEL, THE DEVELOPMENT OF SHARPLY RECUCED REXPORT  
MARKETS ALONE WOULD OBVIOUSLY CREATE A NUMBER OF PROBLEMS FOR PRC.

9. ANOTHER CONSIDERATION IS THE SORTFALL IN THE PRC ANTICIAPIED  
FOREIGN EXCHANGE EARNINGS . ONE CONTRIBUTORY FACTOR IN THE SHORT-  
FALL HAS BEEN, OF COURSE, THE DECLINE IN PRC'S FOREIGN TEXTILE  
MARKETS. CONCELLATION OF CONTRACTS FOR IMPORTED COTTON THUS  
SERVES AS A DIRECTLY RELATED REMIDIAL ACTION. WITH THE HIGH LEVEL OF  
DOMESTIC COTTON PRODUCTION AS AN ADDITIONAL CONSDIERATION,  
THE CANCELLATION OF CONTRACTS APPEARS EVEL MORE LOGICAL , IF NOT  
INEVITABLE.  
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TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 H-02 PA-01

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10. OTHER, THOUGH LESS IMPORTANT, FACTORS COULD INDICATE STORAGE CRUNCH WHICH MIGHT DEVELOP WITH COMBINATION OF TWO CONSECUTIVE LARGE COTTON HARVESTS (1973 AND 1974), RECENT LARGE VOLUME OF COTTON IMPORTS AND REDUCED MILL USE. WHILE " TEMPORARILY SURPLUS" COTTON COULD BE DIVERTED INTO INCREASED COTTON CLOTH RATIONS AT HOME, STRENGTHENING OF FOREIGN TEXTILE MARKETS WITHIN ONE YEAR, OR EVEN TWO, WOULD NO DOUBT REQUIRE CONSEQUENT REDUCTION BACK TO CURRENT RATION LEVELS --- AN ACTION WHICH WOULD BE NEITHER LOGISTICALLY NOR POLITICALLY FEASIBLY OR DESIRABLE. NOR WOULD IT BE IDEOLOGICALLY CONSISTENT WITH STANDING POLICY OF PRACTICING AUSTREITY.

1. CONCERNING PRC COTTON EXPORTS--- REPORTS AND RUMORES IN PAST FEW MONTHS HAVE CLAIMED PRC NOW EXPORTING DOMESTIC COTTON AND/OR RE-EXPORTING U.S. COTTON TO HONG KONG, JAPAN AND POSSIBLY OTHER MARKETS. PRC REPORTEDLY ALSO HAS ATTEMPTED TO ARRANGE DIRECT SHIPMENTS OF U.S. COTTON TO THIRD-COUNTRY MARKETS TO DRAWN DOWN LARGE VOLUME PURCHASED FROM U.S., THUS REDUCING FOREIGN EXCHANGE COMMITMENT AND TRANSPORTATION COST AS WELL AS ELIMINATING RE-EXPORT NUISANCE IN CHINESE PORTS. (NOTE: WHILE PRC CANNOT BE

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CONSIDERED AS "NORMAL" COTTON EXPORTER, NEITHER IS IT ENTIRELY NEW IN FIELD. E.G., IN 1967, 1968 AND 1969, PRC EXPORTED 3,801 7,817 AND 383 METRIC TONS OF ITS COTTON, PRIMARILY TO JAPAN AND WEST GERMANY. NORMALLY, OF COURSE, IT IS MAJOR IMPORTER OF RAW COTTON.)

12. IN ITS CURRENT EXPORT EFFORT, THE FIRST CHINESE COTTON ARRIVED IN HONG KONG IN DECEMBER 1974--497 METRIC TONS (EQUIVALENT TO 2,192 U.S. RUNNING BALES OF 500 LBS EACH). ACTUAL

IMPORTS WERE 6,425 BALES OF IRREGULAR SIZES WHICH PRESENTS APPARENT STATISTICAL DISPARITY. IMPORTED CHINESE COTTON ARRIVED IN THREE DIFFERENT BALE SIZES: (A) 180-200 LBS, 6.5 CU. FT.; (B) 440 LBS AV. WEIGHT, 12.5-13P CU. FT. ; (C) 470 LBS AV., APPROX. 13 CU FT. ALL HIGH DENSITY BALES. QUALITY VERY GOOD FOR SPINNING AND SOME STAPLE LENGTHS EVEN LONGER THAN DECLARED. (IT IS NOT KNOWN IF COTTON IS 1974 CROP, OR EARLIER, BUT WE ASSUME EARLIER).

13. THE AGRICULTURAL OFFICER BELIEVES THAT PROFUSION OF BALE

SIZES DELIVERED INTO HONG KONG MARKET IMPLIES THAT COTTON ORIGINALLY WAS NOT DESTINED FOR EXPORT. (THIS WOULD BE TRUE ESPECIALLY IF COTTON IS 1973 CROP, OR EARLIER). USE OF HIGH-DENSITY BALING REFLECTS CAPABILITY --- AT LEAST IN CERTAIN AREAS- OF REDUCING SPACE REQUIRED FOR TRANSPORTATION AND STORAGE OF THIS BULKY AGRICULTURAL COMMODITY.

14. PRC REPORTEDLY ALSO SOLD ADDITIONAL 6,000 M.T. TO HONG KONG IN DECEMBER FOR CY 1975 DELIVERY, OF WHICH SMALL QUANTITIES ARE BELIEVED TO BE COMING IN NOW. WITH HONG KONG SPINNERS NOW BUYING ONLY FEW WEEKS AHEAD, AND AT ONLY HALF USUAL IMPORT LEVELS, PRC IS CURRENTLY IN HIGHLY COMPETITIVE POSITION IN HONG KONG MARKET AS SUPPLIER CAPABLE OF DELIVERING SMALL QUANTITIES OF COMPETITIVELY PRICED, CLEAN, "FULL- LENGTH" COTTON ON A FEW DAYS' NOTICE. AS WORLD TEXTILE MARKETS STRENGTHEN, HOWEVER, CHINA CAN BE EXPECTED TO USE ITS OWN COTTON IN ITS OWN MILLS AND GRADUALLY PLACE ORDERS FOR FOREIGN RAW COTTON TO MEET EXPANDING MILL REQUIREMENTS.  
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## Message Attributes

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